

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY

MANISTEE, MICHIGAN

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FINANCIAL REPORT WITH  
SUPPLEMENTAL INFORMATION

JUNE 30, 2008

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Manistee Downtown Development Authority	County Manistee
Fiscal Year End June 30, 2008	Opinion Date September 18, 2008	Date Audit Report Submitted to State September 18, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

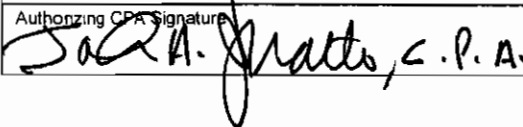
SE 2

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Kalcher, Vanderwal & Torrey, P.C.		Telephone Number 231-723-6275	
Street Address 475 Water Street		City Manistee	State MI
Zip 49660			
Authorizing CPA Signature 	Printed Name John A. Spratto	License Number 16245	

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY  
MANISTEE, MICHIGAN  
TABLE OF CONTENTS

	<u>Page</u>
Auditing Procedures Report	1
Independent Auditors Report	2 - 3
Management's Discussion and Analysis	4 - 8
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements:	
General Fund:	
Balance Sheet	11
Reconciliation of the Balance Sheet of the General Fund to the Statement of Net Assets	12
Statement of Revenue, Expenditures, and Changes in Fund Balances	13
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of the General Fund to the Statement of Activities	14
Notes to Financial Statements	15 - 19
Required Supplemental Information:	
Budgetary Comparison Schedule - General Fund	21

**KALCHER  
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JOHN A. SPRATTO, C.P.A.  
DAVID L. RICHARDS, C.P.A., A.B.V.

TRAVERSE CITY  
MANISTEE

**CERTIFIED PUBLIC ACCOUNTANTS**

Of Counsel.  
LEONARD R. KALCHER, C.P.A.

September 18, 2008

Independent Auditors Report

To the Board of Directors  
Manistee Downtown Development Authority  
Manistee, Michigan 49660

We have audited the accompanying financial statements of the governmental activities and the General Fund of Manistee Downtown Development Authority as of and for the year ended June 30, 2008, which collectively comprise Manistee Downtown Development Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Manistee Downtown Development Authority management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of Manistee Downtown Development Authority as of June 30, 2008 and the respective changes in financial position, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Manistee Downtown Development Authority's basic financial statements. The accompanying required supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The required supplemental information is information required by accounting principles generally accepted in the United States of America. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Kalcher, Vandewort & Taney, P.C.*

Certified Public Accountants

**MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008**

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The Manistee Downtown Development Authority (DDA) is a component unit of the City of Manistee, Michigan. The purpose of the Authority is to act as the Development Authority for the City of Manistee in accordance with Act 197 of the Public Acts of 1975, as amended, including, but not limited to: correct and prevent deterioration in the Downtown Development District; to encourage historic preservation, to create and implement development plans, and to promote economic growth.

The DDA is governed by a volunteer Board of Directors, consisting of the Mayor and eight other members appointed by the Mayor, with the approval of the City Council. The DDA is a public body and conducts itself in accordance with all of the Michigan Statutes governing the operation of public agencies. The DDA Board meets the first Wednesday of each month and the DDA Marketing Committee meets the second Thursday of each month.

This section of the Manistee Downtown Development Authority's annual financial report presents its discussion and analysis of the Downtown Development Authority's financial performance during the fiscal year from July 1, 2007, to June 30, 2008.

When the budget was drafted, the revenue was estimated on a conservative basis with the expenditures being estimated on a liberal basis.

Actual revenues from Property Taxes, for the fiscal year ended June 30, 2008, were \$289,057 compared to \$274,609 for the previous year. The City remits TIF revenue to the DDA based on actual taxes paid and if late tax payments are received by the City, payments to the DDA would also be late.

The DDA currently has \$200,000 invested in a six month CD, with Huntington Bank, due to mature on August 25, 2008. During the last fiscal year, \$10,550 in interest was earned, due to investing in CD's.

On November 27, 2007, the DDA entered into a consulting agreement with Renaissance West, for a monetary amount of \$40,000 annually. The agreement includes the following:

1. Identifying underdeveloped functionally obsolete or distressed property and collaborate with the City and the DDA to leverage funding opportunities with private funds, grant funds, brownfield redevelopment funds, MSHDA funds, OPRA incentives, historic tax credits, etc., for development to adaptive reuse in retail, commercial office, and housing within the DDA district.
2. Developing a reuse plan for retail, commercial, office, and housing to most effectively utilize the Downtown Development District assets,
3. Researching grant opportunities in façade restoration, affordable housing, market rate housing; and land acquisition, present opportunities to the Authority for Review; prepare grant applications for opportunities to be pursued;

**MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008**

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4. In cooperation with the Historic Overlay Design Review Committee (now identified as the Historic District Commission), review update, and publish exterior façade restoration guidelines;
5. Identifying development impediments to the Downtown Development District as it relates to adjacent neighborhoods, as well as, development impediments within the Downtown District such as noise, traffic, parking, and trash removal,
6. Developing, organizing and leading a seminar on the benefits of redevelopment in a Historic district, as well as, maintenance guidelines for historic buildings.

A grant of \$29,000 is now available under the Revolving Loan Program. The guidelines specify that loan requests by downtown business owners can provide financing for projects for equipment, operational expenses and inventory.

During the last fiscal year, the DDA Grant Committee reviewed three consulting firms and their proposals on a Downtown Manistee marketing study. Beckett and Raeder were selected to do the study, at a cost of \$45,000. The marketing study was completed, copied to community leaders, and may be accessed online. The DDA received a MSHDA Market Study & Economic Analysis Grant for matching funds, in the amount of \$22,500.

A General Maintenance of Historic Buildings Seminar was held on April 26. Invitations were extended to the public.

Ramona Venegas, Manager of the Farmer's Market, was retained for the year 2008 for \$2,000.

The DDA entered into an administrative services contract with Sarah Wojciechowski on October 27, 2007, at \$800 per month.

### **Overview of the Financial Statements**

This annual report consists of the following parts:

1. Management's discussion and analysis.
2. General Fund Balance Sheet, Reconciliation of the Balance Sheet of the General Fund to the Statement of Net Assets.
3. Statement of Revenue, Expenditures and Changes in Fund Balance.
4. Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the General Fund to the Statement of Activities.
5. Notes to Financial Statements.
6. Required Supplemental Information.

**MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008**

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The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the financial statements with a comparison of the DDA's budget for the year.

**Fund Financial Statements**

The DDA has one kind of fund:

- **Governmental funds:** Most of the DDA's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the DDA's programs. Because this information does not encompass the additional long-term focus of the DDA-wide statements, this report includes reconciliation schedules that explain the relationship (or differences) between the DDA-wide Statements and the Fund Financial Statements.

**Financial Analysis of the DDA as a Whole**

**Net Assets** – The DDA's net assets were \$465,652 for the year ended June 30, 2008. See Figure A-2 illustrating the valuation of net assets.

**Figure A-2**

	As of June 30, 2008	As of June 30, 2007
<b><u>Assets</u></b>		
Cash	\$ 431,324	\$ 390,087
Property Tax Receivable	37,104	45,998
Total Assets	<u>\$ 468,428</u>	<u>\$ 436,085</u>
<b><u>Liabilities</u></b>		
Accounts Payable	<u>\$ 2,776</u>	<u>\$ 4,179</u>
<b><u>Net Assets</u></b>		
Unrestricted	<u><u>\$ 465,652</u></u>	<u><u>\$ 431,906</u></u>



**MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008**

	2008	2007
<b>Condensed Statement of Activities</b>		
Revenue:		
Program Revenue		
Charges for Services	\$ 7,900	\$ -
Grants	22,500	-
General Revenue		
Property Taxes	289,056	274,609
Miscellaneous	1,600	1,375
Investment Income	19,673	21,160
Transfers	(143,998)	(147,560)
Total Revenue	<u>\$ 196,731</u>	<u>\$ 149,584</u>
Expenses:		
Total Downtown Development Expenses	<u>\$ 162,985</u>	<u>\$ 95,532</u>
Changes in Net Assets	\$ 33,746	\$ 54,052
Net Assets - July 1	<u>431,906</u>	<u>377,854</u>
Net Assets - June 30	<u><u>\$ 465,652</u></u>	<u><u>\$ 431,906</u></u>

**Capital Asset and Debt Administration**

Capital Assets – No capital assets. Any assets in the past have been transferred to the City of Manistee. Funding is used to pay down debt.

**Factors Bearing on the DDA's future**

- City staff prepared an application, per the DDA Board's approval, to apply for the Select level of the Michigan Main Street Program. It was noted that acceptance of this program would include hiring a full time DDA director within five years, which could entail an expense of up to \$100,000 per year for a full time director, support staff, and office expenses. The application was accepted by the Michigan State Housing Development Authority. The approved Michigan Main Street District includes River Street to Route 31, extending along Washington Street, to include properties such as North Channel Outlet and Memorial Park (including the Farmer's Market area.) Under the Michigan Main Street Program, the structure of the DDA will be changed.

**MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008**

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**Contacting the DDA's Financial Management**

This financial report is designed to provide the DDA's citizens and taxpayers with a general overview of the DDA's finances and to demonstrate the DDA's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the DDA.

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY  
STATEMENT OF NET ASSETS  
JUNE 30, 2008

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Assets

Cash	\$ 431,324
Property Tax Receivable	37,104
Total Assets	<u>\$ 468,428</u>

Liabilities

Accounts Payable - Trade	<u>\$ 2,776</u>
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Net Assets

Unrestricted	<u><u>\$ 465,652</u></u>
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The Notes to the Financial Statements are an Integral Part of this Statement.

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008

				Governmental Activities
				Net (Expense)
			Operating Grants/ Contributions	Revenue and Changes in Net Assets
<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>		
Governmental Activities:				
Downtown Development	\$ (162,986)	\$ 7,900	\$ 22,500	\$ (132,586)
Total Governmental Activities	<u>\$ (162,986)</u>	<u>\$ 7,900</u>	<u>\$ 22,500</u>	<u>\$ (132,586)</u>
General Revenues:				
Property Taxes				\$ 289,057
Miscellaneous Income				1,600
Investment Income				19,673
Transfers				(143,998)
Total General Revenues and Transfers				<u>\$ 166,332</u>
Change in Net Assets				\$ 33,746
Net Assets - Beginning of Year				<u>\$ 431,906</u>
Net Assets - End of Year				<u>\$ 465,652</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY  
GENERAL FUND  
BALANCE SHEET  
JUNE 30, 2008

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Assets

Assets

Cash	\$ 431,324
Property Tax Receivable	37,104
Total Assets	<u>\$ 468,428</u>

Liabilities and Fund Balance

Liabilities

Accounts Payable - Trade	<u>\$ 2,776</u>
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Fund Balance

Unreserved:

Undesignated	\$ 387,336
Designated	78,316
Total Fund Balance	<u>\$ 465,652</u>

Total Liabilities and Fund Balance	<u>\$ 468,428</u>
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The Notes to the Financial Statements are an Integral Part of this Statement.

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY  
RECONCILIATION OF THE BALANCE SHEET OF THE GENERAL FUND  
TO THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2008

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Fund Balance - Total General Fund	\$ 465,652
There were no reconciling items during the year ended June 30, 2008	<u>-</u>
Net Assets - Governmental Activities	<u><u>\$ 465,652</u></u>

The Notes to the Financial Statements are an Integral Part of this Statement.

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY  
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2008

Revenue

Property Taxes	\$ 289,057
Downtown Marketing Program	7,900
Interest Income	19,673
Grant - MSHDA	22,500
Miscellaneous	1,600
Total Revenue	<u>\$ 340,730</u>

Expenditures

Farmer's Market	\$ 1,568
Administrative Services	6,400
Contributions	5,000
Dues and Subscriptions	300
Chamber Allocation	4,016
Consulting	40,000
Grant Expense - MSHDA	5,000
Miscellaneous	3,111
Maintenance	23,000
Marketing Downtown Expense	19,846
Marketing Study	45,000
Office Supplies	1,023
Postage and Delivery	180
Professional Fees	3,780
Travel and Entertainment	645
Downtown Flower Program	4,117
Total Expenditures	<u>\$ 162,986</u>

Excess of Revenues Over Expenditures \$ 177,744

Other Financing Sources (Uses):

Transfer to Primary Government \$ (143,998)

Excess of Revenues Over Expenditures and Other Uses \$ 33,746

Fund Balance - Beginning of Year 431,906

Fund Balance - End of Year \$ 465,652

The Notes to the Financial Statements are an Integral Part of this Statement.

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE  
OF THE GENERAL FUND TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008

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Net Change in Fund Balance - Total General Fund	\$ 33,746
There were no reconciling items during the year ended June 30, 2008.	<u>\$ -</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 33,746</u></u>

The Notes to the Financial Statements are an Integral Part of this Statement.



MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

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**Note 1 - Reporting Entity**

The Manistee Downtown Development Authority is a component unit of the City of Manistee, Michigan. The purpose of the Authority is to act as the Development Authority for the City in accordance with Act 197 of the Public Acts of 1975, as amended, including, but not limited to: to correct and prevent deterioration in the Downtown Development District, to encourage historic preservation, to create and implement development plans, and to promote economic growth.

The Authority is governed by a nine-member board consisting of the Mayor of the City of Manistee and at least five (5) persons having an interest in property located in the downtown district. At least one of the board members shall be a resident of the downtown district if it has one hundred or more persons residing within it.

**Note 2 - Summary of Significant Accounting Policies**

The accounting policies of Manistee Downtown Development Authority conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Authority:

**Government-wide and Fund Financial Statements**

The Government-wide financial statements (i.e., the statement of net assets and the Statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Authority's Government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes charges to the downtown merchants to cover the costs of marketing the downtown area. Intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**Government-wide Financial Statements** - The Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**Note 2 - Summary of Significant Accounting Policies - *continued***

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation - *continued***

**Government-wide Financial Statements - *continued***

Amounts reported as program revenue consist of charges to downtown merchants for promotional costs.

**Fund Financial Statements** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The authority reports the following major governmental fund:

**General Fund** - The general fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority.

**Comparative Data** - Comparative data is not included in the Authority's financial statements.

**Note 3 - Stewardship, Compliance, and Accountability**

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for the General Fund. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Authority to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits authorities to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**Note 3 - Stewardship, Compliance, and Accountability - *continued***

**Excess of Expenditures Over Appropriations in Budgeted Funds** – The Downtown Development Authority incurred an expenditure in excess of the amount appropriated as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Over Expended</u>
<u>Description</u>			
Miscellaneous	\$ 4,015	\$ 4,016	\$ 1

The above over expended amount is contrary to the provisions of Public Act 621 of 1978, Section 18(1), as amended, which provides that, except as otherwise noted in Section 19, a deviation from the original appropriations act shall not be made without amending the general appropriations act.

**Note 4 - Deposits**

Act 217, PA 1982, as amended, authorizes the Authority to deposit and invest in the following:

- a) Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
- b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States.
- c) Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- d) Repurchase agreements consisting of instruments listed in subdivision (a).
- e) Banker's acceptances of United States banks.
- f) Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.
- g) Mutual funds registered under the investment company act of 1940, title 1 of chapter 686, 4 Stat. 789, 15USC 80a-1 to 80a-3 and 80-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:

- i. The purchase of securities on a when-issued or delayed delivery basis.
- ii. The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the securities loaned.
- iii. The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

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**Note 4 - Deposits - *continued***

- h) Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperation Act of 1967.
- i) Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367.
- j) The investment pools organized under the Local Government Investment Pool Act, 1985 PA 121.

The carrying amounts of the Downtown Development Authority's deposits as reflected in the accounts of the banks (without recognition of checks written but not yet cleared or of deposits in transit) was \$ 434,657 of which \$ 200,000 was covered by federal depository insurance and \$ 234,657 was uninsured and uncollateralized.

**Note 5 - Cash**

Cash at June 30, 2008 consisted of the following:

Checking Account - Northwestern Bank	\$ 20,000
Investment Account - Northwestern Bank	211,324
Certificate of Deposit - Huntington Bank	200,000
	<u>\$ 431,324</u>

The certificate of deposit, which matures on August 25, 2008, carries an interest rate of 3.43%.

**Note 6 - Risk Management**

Manistee Downtown Development Authority is included as an insured under policies held by the City of Manistee.

**Note 7 - Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Note 8 - Designated Fund Balance**

The Board of Directors have decreed that an amount equal to five percent (5%) of annual gross property tax revenues be allocated to designated fund balance to be used for land acquisition.

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

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**Note 9 - Commitments**

On November 27, 2007, the Manistee Downtown Development Authority entered into an agreement with Renaissance West, A Michigan Corporation located in Onkama, Michigan, whereby Renaissance West will provide to the Downtown Development Authority consulting services to improve, re-develop, and better utilize the real property assets of the City of Manistee Downtown.

Terms of the Agreement call for a consulting fee of forty thousand (\$ 40,000) dollars payable in monthly installments of \$ 3,333 beginning on October 25, 2007, with a like sum due on the 25<sup>th</sup> of each month thereafter for ten months. The last two monthly payments will be due on October 24, 2008.

On August 8, 2008, the Board of Directors approved application for the Select Level of the Michigan Main Street Program through the Michigan State Housing Development Authority. This program level requires hiring a full-time DDA director with a current deadline of hiring the director of September 29, 2008. Expenses related to the position, including support staff and office expenses, could be up to \$100,000 per year.

REQUIRED SUPPLEMENTAL INFORMATION

MANISTEE DOWNTOWN DEVELOPMENT AUTHORITY  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Actual Over/Under Final Budget
<u>Revenues</u>				
Property Taxes	\$ 287,757	\$ 297,951	\$ 289,057	\$ (8,894)
Downtown Marketing Program	17,400	7,500	7,900	400
Grant Income - MSHDA	22,500	22,500	22,500	-
Interest Income	18,000	18,538	19,673	1,135
Miscellaneous	1,500	1,530	1,600	70
Total Revenue	<u>\$ 347,157</u>	<u>\$ 348,019</u>	<u>\$ 340,730</u>	<u>\$ (7,289)</u>
<u>Expenditures</u>				
Chamber Allocation	\$ 11,000	\$ 4,015	\$ 4,016	\$ (1)
Administrative Services	-	6,400	6,400	-
Grant Expense	-	5,000	5,000	-
Downtown Flower Program	-	9,000	4,117	4,883
Incentive Program	10,000	10,000	-	10,000
Maintenance	23,000	23,000	23,000	-
Miscellaneous	4,000	6,000	5,259	741
Professional Fees	4,000	4,000	3,780	220
Special Projects	10,000	10,000	-	10,000
Marketing	33,400	26,750	19,846	6,904
Contributions	6,000	6,000	5,000	1,000
Marketing Study	45,000	45,000	45,000	-
Consulting	40,000	40,000	40,000	-
Farmers Market	2,500	2,500	1,568	932
Total Expenditures	<u>\$ 188,900</u>	<u>\$ 197,665</u>	<u>\$ 162,986</u>	<u>\$ 34,679</u>
Revenue Over Expenditures	\$ 158,257	\$ 150,354	\$ 177,744	\$ 27,390
<u>Other Financing Uses</u>				
Operating Transfers Out	<u>\$ (143,998)</u>	<u>\$ (143,998)</u>	<u>\$ (143,998)</u>	<u>\$ -</u>
Revenue and Other Sources Over Expenditures	14,259	6,356	33,746	27,390
Fund Balance - July 1, 2007	<u>431,906</u>	<u>431,906</u>	<u>431,906</u>	<u>-</u>
Fund Balance - June 30, 2008	<u>\$ 446,165</u>	<u>\$ 438,262</u>	<u>\$ 465,652</u>	<u>\$ 27,390</u>

See Notes to Financial Statements.

**KALCHER  
VANDERWAL  
TORREY, P.C.**

DALE L. VANDERWAL, C.P.A.  
LEE W. TORREY, C.P.A.  
JOHN A. SPRATTO, C.P.A.  
DAVID L. RICHARDS, C.P.A., A.B.V.

TRAVERSE CITY  
MANISTEE

**CERTIFIED PUBLIC ACCOUNTANTS**

Of Counsel:  
LEONARD R. KALCHER, C.P.A.

September 18, 2008

To the Board of Directors  
Manistee Downtown Development Authority  
Manistee, Michigan 49660

In planning and performing our audit of the financial statements of Manistee Downtown Development Authority for the year ended June 30, 2008, we considered the Authority's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of a matter that is an opportunity for strengthening internal controls and operating efficiency. Our comments and recommendations regarding these matters are as follows:

Unsigned Checks

The policies of Manistee Downtown Development Authority require all checks to be signed by two authorized signees. During the course of our audit we noted two checks which cleared the bank that did not have the two required signatures. One had one signature, the other had none.

We recommend that the Authority work with its bank to ensure that any checks not displaying two authorized signature be rejected by the bank. Currently, the checks have only one signature line with both signers required to sign on the same line. We recommend that as new checks are ordered they be changed to show two separate signature lines which should alleviate the problem.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and recommendations with various personnel, and we will be pleased to discuss this in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendations.

Sincerely,

*Kalcher, Vanderwal & Torrey, P.C.*  
Certified Public Accountants



**KALCHER  
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**CERTIFIED PUBLIC ACCOUNTANTS**

Of Counsel:  
LEONARD R. KALCHER, C.P.A.

September 18, 2008

To the Board of Directors  
Manistee Downtown Development Authority  
Manistee, Michigan

In planning and performing our audit of the financial statements of Manistee Downtown Development Authority as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Manistee Downtown Development Authority's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Manistee Downtown Development Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Manistee Downtown Development Authority's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we considered to be material weaknesses, as defined above. However, we identified the following deficiency in internal control that we considered to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

### **Preparation of Financial Statements in Accordance with GAAP**

The Manistee Downtown Development Authority is required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the Manistee Downtown Development Authority's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data, (i.e., maintaining internal books and records), and (2) reporting financial statements, including the related footnotes (i.e., external financial reporting).

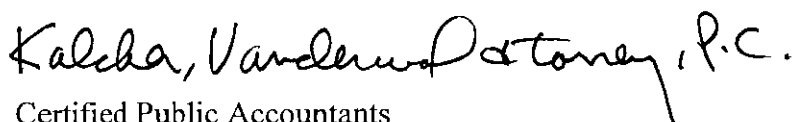
As in the case with many small governmental units, Manistee Downtown Development Authority has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the Manistee Downtown Development Authority's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the Downtown Development Authority's *internal* controls.

This condition was caused by the Downtown Development Authority's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Downtown Development Authority to perform this task internally.

As a result of this condition, Downtown Development Authority lacks the internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its auditors for assistance with this task.

In addition, we noted another matter involving the internal control and its operation that we have reported to management of Manistee Downtown Development Authority in a separate letter dated September 18, 2008.

This communication is intended solely for the information and use of management, Board of Directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants